



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

DAMAGES AND PROFITS IN PATENT CAUSES.

The statement is often made that the main principles of the patent law are developed and fixed. This statement is generally true, but like any such broad assertion, it is open to qualification. Of course, should procedural law be regarded an integral part of the patent law, then that assertion would be, in large measure, cancelled. But the evils and inefficiency of Federal procedure are general; and while they have been a peculiar affliction in the patent law, as I have pointed out elsewhere,¹ they are curable by a general revision of equity practice in the United States courts. Among the qualifications of the statement that the main principles of the patent law are developed and fixed, none is so important as certain features of the law of damages and profits.

It is the purpose of this article, not to present a complete review of the subject of damages and profits, but to show the development of one phase, which it is believed has gone far afield and astray; and to indicate the very simple remedy for an evil which, born of judicial academics, comes near to defeating the plain, proper and just ends of the Federal statute.

While we are all familiar with the fact that the statute provides for the recovery of damages for infringement in an action at law² and for the recovery of profits and damages by action in equity,³ it may be well to revert to some of the fixed measures and criteria by which a jury is to be governed in the assessment of damages, or a court of equity in determining profits or damages.

Very early in the history of the patent law the fundamental proposition that only actual damages may be recovered was laid down by Mr. Justice Woodbury.⁴ This rule was applied by Mr. Justice Grier in *Seymour v. McCormick*⁵ in the familiar statement that a jury "can find only such damages as have actually been proved to be sustained." This rule, of course, applies equally to damages in equity; and profits, which Mr. Justice Swayne defined in *Rubber Co. v. Goodyear*⁶ as "the gain made upon any business

¹North American Review, June, 1910.

²R. S. §§ 4919, 4920.

³R. S. § 4921.

⁴Hogg v. Emerson (1850) 11 How. 587, 608.

⁵(1853) 16 How. 480.

⁶(1869) 9 Wall. 788.

or investment, when both the receipts and payments are taken into the account;" and conversely, as Mr. Justice Miller said, "profits are not the primary or true criterion of damages for infringement in an action at law." Moreover, profits must be limited to what the defendant realized, not what he might have realized.⁷ But this, of course, does not mean profits on the business; for one may embark upon an enterprise which, as a whole, is unsuccessful, but still be liable for profits for infringement, as Judge Coxe cleverly states it, "upon the theory that but for the use of the infringing machine, he would have lost more money."⁸

It is to be noted that the terms "damages" and "profits" are often used loosely by the courts—the former being employed frequently when the latter is meant. And it is also to be remarked that this practice is not without justification; for since the defendant's gains (profits) is one measure of damages, and, since in the end, the defendant in equity cannot undo his past further than to pay for his tort, the distinction is lost in the check that satisfies the judgment. But if the distinction between damages and profits is employed as a working theory—as we use, for example, the theory of evolution—it is highly useful. It is only when we make the theoretical distinction between damages and profits the essence of things, as the courts sometimes have done—just as some have mistaken the theory of evolution for the person of the Almighty—that mischief begins. A bright and shining example of such error is to be found in the *dictum*, well illustrated in *Yesbera v. Hardesty Manufacturing Co.*,⁹ that the statute giving a court of equity authority to increase damages, in its discretion, as in law actions, does not apply to damages computed on the basis of profits. That is to say, if I prove damages in an action at law, in terms of the defendant's gains (profits) the court may increase the sum not exceeding three times the amount proved; while if I prove my losses in an action in equity in the same terms, the plain statement and plainer intent of the statute does not apply, and the damages shown in terms of profits cannot be increased.

If, to these generalizations, we add the remark that, when the entire gains of the defendant are due to the infringement, his entire gains are the profits due the complainant,¹⁰ and also that, where

⁷Burdell *v.* Denig (1875) 92 U. S. 716; Livingston *v.* Woodworth (1853) 15 How. 546; Dean *v.* Mason (1857) 20 How. 198.

⁸Brown Bag Filling Machine Co. *v.* Drohen (1910) 175 Fed. 576.

⁹(1908) 166 Fed. 120.

¹⁰Elizabeth *v.* American Pavement Co. (1877) 97 U. S. 126.

the defendant's entire profits were derived from the infringement, his profits are the plaintiff's damages,¹¹ we shall have narrowed the field of inquiry materially. But still the field is large. As Mr. Justice Grier said:

"There cannot, in the nature of things, be any one rule of damages which will equally apply to all cases.. The mode of ascertaining actual damages must necessarily depend upon the peculiar nature of the monopoly granted."¹²

And we find the wisdom of this statement in the decisions of that great court, which has never established one measure as *the* measure. For example, reading out from this general statement, we find one measure to be the profit made by the defendant and that lost by the plaintiff;¹³ another, where profits are the proper measure, it is the profits which the infringer makes;¹⁴ another, established license fees are the best measure of damages that can be used;¹⁵ another, evidence of an established royalty will undoubtedly furnish the true measure of damages.¹⁶

Thus we find in this seeming complexity of rulings a steady and consistent effort on the part of the courts to mete out even-handed justice to all—to the inventor whose rights have been pirated, to the manufacturer whose business is dependent upon a patent monopoly, to the defendant who ranks no higher than an ordinary thief (but who still has rights), and to the defendant who, though mistaken, has acted in good faith according to his lights upon the facts and the law. And the courts have even gone farther, as we shall see in the case of *Doten v. City of Boston*,¹⁷ and in the absence of any measure or criteria, meted out justice according to the conscience of the chancellor. Thus far little but commendation can be spoken for the development of the law of damages and profits. In fact, it might be said the law of damages and profits is wholly above serious criticism; for the evil intimated at the outset lies in the law of the *evidence of damages and profits*, rather than in any established measures or criteria. It is to that end that we now turn.

¹¹Hurlbut *v.* Schillinger (1888) 130 U. S. 456.

¹²Seymour *v.* McCormick (1853) 16 How. 480.

¹³Philip *v.* Nock (1873) 84 U. S. 460.

¹⁴Burdell *v.* Denig (1875) 92 U. S. 716.

¹⁵Clark *v.* Wooster (1886) 119 U. S. 322.

¹⁶Birdsall *v.* Coolidge (1876) 93 U. S. 64.

¹⁷(1905) 138 Fed. 406.

Perhaps the statement of Mr. Justice Woodbury, above referred to, that only actual damages may be recovered, which has given rise to such statements as "actual damages must be actually proved," and the like, which pervades both opinions and text-books, warped the working-out of the rules of evidence of damages and profits. Certain it is that the undercurrent of decision came to the surface in *Garretson v. Clark*,¹⁸ and has wound its devious course through the valley of invention and emptied into the dead sea of doubt and disorder marked by *Westinghouse v. New York Air Brake Co.*,¹⁹ *McSherry Manufacturing Co. v. Dowagiac Manufacturing Co.*,²⁰ and *Westinghouse Electric Co. v. Wagner Electric Co.*²¹

Let us get clearly before us the case of *Garretson v. Clark*. Garretson had a patent on a mop-head—a narrow, improvement patent. Clark infringed it. Before the master in chancery, George J. Sicard, Esq., afterwards law partner of President Cleveland, Garretson proved the entire profits Clark had made on mops—mop-stick, mop-head, clamp and all. Counsel for Clark presented to the master as a request to find, the following:

"The patentee must in every case give evidence, tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative; or he must show, by equally reliable and satisfactory evidence, that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature."

Stated briefly and in the proper order, the rule amounts to this:

1. If the complainant claims the entire profits of the defendant arising from the infringement, he must prove conclusively that all of the profits were directly due to the patented feature.
2. If the complainant cannot so claim, he must prove conclusively exactly what part or portion of the profits were due to the patented feature.

The master so found, quoting exactly the request of counsel for Clark. Judge (afterwards Justice) Blatchford confirmed the master's report, and made this request to find a part of his opinion

¹⁸(1884) 111 U. S. 120.

¹⁹(1905) 140 Fed. 545.

²⁰(1908) 160 Fed. 948.

²¹(1909) 173 Fed. 361.

—*verbatim*, but without quotation marks. The Supreme Court affirmed Judge Blatchford, and quoted this request to find; and so it has come down the stream of decision, bearing a wrong label and doing what damage it might.²²

The first inquiry is, was this rule of segregation novel and original in the *Mop* case? From the opinion of Judge Blatchford, the affirmance by the Supreme Court, and the profound salaams of bench and bar to this day, one would suppose so. But such is not the case. Every essential and sound principle of the *Mop* case had been stated in such cases as *Rubber Co. v. Goodyear*,²³ *Seymour v. McCormick*,²⁴ and *Mowry v. Whitney*.²⁵ Counsel for Clark drew from these cases a request to find in the most rigorous terms those decisions would warrant, and placed the entire burden of proof upon the complainant. Adopted by master in chancery, circuit judge and Supreme Court Justice, this request to find became the law. The previous decisions did not so definitely fix the burden of proof; they did not place every whit of the burden solely upon the complainant or plaintiff. Hence the only novelty that can be predicated of this pronouncement is that it established upon, or imposed upon, the existing law an inflexible, arbitrary, iron-clad rule of evidence fraught with serious consequences.

The next inquiry is, to what point has this rule arrived? The case of *Westinghouse v. New York Air Brake Co.*²⁶ marks one limit, and *Westinghouse Electric Co. v. Wagner Electric Co.*²⁷ marks another. In the former case the master, instructed by most learned counsel, found profits in the sum of \$49,533, and damages due to diversion of business in the sum of \$193,978—a total of \$243,511. The circuit judge sent the report back

“for the purpose of making a computation of profits and damages based upon the sales by the defendant of the quick-action valves of the patent only, separated from those upon the complete equipments.”

²²The counsel who drew this request to find upon a half-sheet of legal cap was the writer's brother, the late Justice Francis A. Macomber. From him and from Mr. Sicard the facts were learned.

In connection with this note, personal in character, it should be stated that, while the two decisions severely criticised were both cases involving Westinghouse interests, the writer is not, and never has been, in any way connected with those interests.

²³(1869) 9 Wall. 788.

²⁴(1853) 16 How. 480.

²⁵(1871) 81 U. S. 620.

²⁶(1905) 140 Fed. 545.

²⁷(1909) 173 Fed. 361.

In other words, to apply the *Mop* case rule strictly. The master did so, and reported profits at \$36,945 and damages at \$128,737—a total of \$165,682. This report was confirmed by Judge Wheeler, but upon appeal the entire recovery was swept away, because

"it was incumbent upon them [the complainants] to prove that the entire value of defendant's quick-action valve as a marketable article was properly and legally attributable to the patented features. What they did prove, and all they proved, was that purchasers of triple valves generally demanded some form of quick-action valves, and that, except to a very limited extent, purchasers could not be found for valves without these features. This falls short of proof that only the patented form could supply the demand, and does not meet the requirements of the second branch of the rule"

in the *Mop* case.

Hence, to the two requirements of the *Mop* case rule must be added,—

3. Having made complete segregation and having proved exact profits, the complainant must also prove that *not one cent of such profits could have arisen in any other way; and if he fails so to prove, even to the last penny, he fails of any recovery.*

Now take the case of *Westinghouse Electric Co. v. Wagner Electric Co.*²⁸ The patent was basic upon a certain type of converter. No converter could be made to do the particular work for which it was designed without infringing the basic, essential features of the patent. The defendant infringed. This was found by both courts. The defendant also made some converters with a small, and apparently immaterial omission—evidently so because the converter did the same work. So changed the court held non-infringement (whether justifiable in view of a previous construction of the patent by another appellate court matters not); and because the complainant failed to definitely segregate the unquestioned infringements from the modified form of converters believed by complainant to be infringements, any recovery was denied.

This renders it necessary to add another provision to the *Mop* case rule,—

4. The rule of trustee *ex maleficio* does not apply to equity causes involving patents. If the appellate court finds that any part whatever of the profits found arose from a construction there held not to be infringement, the complainant is entitled to no recovery, even upon the undisputed infringing acts.

²⁸*Supra.*

It thus follows that, if the complainant cannot separate and itemize the acts of the defendant in preview of an appellate ruling, it is his fault and not the defendant's tort. It is to be noted, however, that Judge Sanborn dissents from this holding, and gives²⁹ a most lucid presentation of the law in that case as it should be.

But it may be said that neither in this case nor in the former did the complainant make or attempt to make such segregation as the appellate courts required. Grant it. First, how did the complainant know in advance that such a construction was to be put upon the facts by the appellate tribunals? Must proof of damages and profits show what may be recovered if the appellate court holds one way and what may be recovered if that court holds another way? Second, both causes were in equity; both ended in most inequitable defeat to the complainant. The circuit judges were subject to the orders and instructions of the appellate courts; so were the masters. Why should there have been, at the end, essentially a verdict of no cause of action by an appellate court, instead of a reference back and direction to the trial court to do equity according to the rulings of the appellate court upon the law and the facts?

We might go farther and present a most remarkable state of affairs in the *Dowagiac* case, above mentioned; but these two cases serve to point the conclusions. Let us now state the *Mop* case rule as it now must needs be read:

1. If the complainant claims the entire profits of the defendant arising from the infringement, he must prove conclusively that all of the profits were directly due to the patented feature.
2. If the complainant cannot so claim, he must prove conclusively exactly what part or portion of the profits were due to the patented feature.
3. Having made complete segregation and having proved exact profits, the complainant must also prove that not one cent of such profits could have arisen in any other way; and if he fails so to prove, even to the last penny, he fails of any recovery.
4. The rule of trustee *ex maleficio* does not apply to equity causes involving patents. If the appellate court finds that any part whatever of the profits found arose from a construction held there not to be infringement, the complainant is entitled to no recovery, even upon the undisputed infringing acts.

²⁹(1909) 173 Fed. 361 at 375.

The rule of mitigations and deductions of damages and profits in patent causes is well settled. It has always been required that the plaintiff or complainant shall deduct from the gross sum those proper items within his purview to prove; and also that, if he fails to make sufficient deductions, the burden is upon the defendant to complete such deductions.³⁰ In other words, the burden of proof is upon the plaintiff or complainant to the extent of the proofs normally within his reach; then the burden shifts, and the defendant must establish those things the evidence of which lies within his reach.

Apply this rule to the *Air Brake* case. Certainly, if any proof could be adduced to show that even "to a limited extent, purchasers could * * * be found for valves without those features," that evidence was within the purview and power of the defendant to produce, and not in the complainant; and to prove with exactness, withal, from its own books. The complainant showed what, and the best, it could. Suppose that it had been the law of segregation, as it is the law of deductions and mitigations, that, *when the plaintiff or complainant has properly and fairly presented the evidence within his purview to establish segregation, the burden of proof then shifts to the defendant*—suppose such a common-sense rule applied—there would have been no miscarriage of justice.

Turn now to the *Converter* case. The books and records to show exactly how many converters it had made which infringed the patent and the exact figures to show, in mitigation, the number made which embodied the modified form were *exclusively in the possession of the defendant*. With the proper shifting of the burden at this point there could hardly have been such a miscarriage in equity.

With not so much whittling, after all, we have sharpened the argument down to a point where it writes very plainly. It comes to this:

First. The rule of segregation as stated in *Garretson v. Clark* was but a restatement of the principles long previously announced, but with an arbitrary, ironclad, inflexible, inequitable rule appended. In fact, it is not wide of the mark to say that the appendix of the *Mop* case added to the existing law was a vermicular appendix, which latter has been defined by a great scientist as "physical evidence of original sin."

³⁰Warren *v. Keep* (1894) 155 U. S. 265.

Second. The application and refinement of the rule has led, not only to absurdity, but to serious inequity.

Third. The segregation rule is, even in the rigorous form of statement in the *Mop* case, proper and sound, *provided that the burden shall shift to the defendant when the plaintiff or complainant has adduced the evidence properly and fairly within his power.*

The proportion of great and basic patents which dominate and lay tribute upon an entire art is small. With the advancing years the proportion grows smaller. The great bulk of valuable patents are for improvements which can lay tribute upon only a small fraction of the gain in any art; and consequently the second part of the *Mop* case rule applies to the great majority of cases. Under the warped and narrowed construction of the segregation rule the patentee is substantially without hope of recovery of damages or profits for the piracy of his invention. Patent attorneys no longer hold out any hope of recovery in any substantial degree to their clients. The records warrant no such hope. The effect of the *Mop* case rule and its construction may be seen from this statement which is, substantially, the statement made under oath by a patent attorney of long and large experience:

The equity docket of the Southern District of New York has been examined, and shows, as a fair average, that in only four of the fifty-four cases wherein accountings were ordered, do any proceedings upon the accountings appear of record.³¹ Why? Because where there are four cases which may weather the *Mop* case rule, there are fifty that cannot. In other words, the *Mop* case, saturated with the alkali of judicial refinement and construction has mopped up and wiped out all but a trace of the power of the law of damages and profits in patent causes as provided for in the statute.

But there is a gleam of gray in the East. The First Circuit has had the courage to find, from the general evidence, where infringement and gain by the defendant were evident, but where profits were not provable by any orthodox rule, *a substantial award to the complainant.*³² And there is a glow in the West that foretells a better day. The Seventh Circuit has held that, where the complainant did not attempt to segregate, and where the defendant made no attempt to show that any part of the profits were due to other factors than the patented portion, the measure was the entire

³¹Compl'ts Rec. in *Hall Signal Co. v. General Ry. Signal Co.* (1907) 153 Fed. 907.

³²*Doten v. City of Boston* (1905) 138 Fed. 406.

profits.³³ The time is at hand when our courts must recognize the fact that the rule of segregation as stated in the *Mop* case, is not a rule of damages or profits in any proper sense of the term, but a rule of *evidence* in arriving at damages and profits; and that as such it must be construed to conform to the larger and broader and more equitable rules of *onus probandi*. With no other change than this, we shall be able to say with much better grace that the main principles of the patent law are developed and fixed.

Wm. MACOMBER.

BUFFALO, N. Y.

³³Orr & Lockett Co. v. Murray (1908) 163 Fed. 54